LuxSE launches LGX Academy to boost sustainable finance education

By Frank Vandenbrucke, Professor at the University of Amsterdam

The European Commission proposes a European support system for national unemployment insurance systems, labeled ‘SURE’ (Temporary Support to Mitigate Unemployment Risks in an Emergency). SURE organizes support for ‘job losses’ rather than ‘job termination’ and social security payments. However, it was presented as a kind of temporary and emergency intervention in the context of a European unemployment re-insurance system. Unemployment re-insurance means that countries hit by a severe economic crisis can receive solidarity contributions from the rest of the Member States in order to give budgetary support to cope with increased spending on unemployment benefits and reduced government revenues.

Since the euro area crisis, unemployment re-insurance has been advocated by experts as an essential instrument to complete the Economic and Monetary Union (EMU), and it now features in the agenda of the von der Leyen Commission. Although unemployment re-insurance is seen as a solution for specific problems of the euro area, SURE is proposed to all EU Member States. The model of solidarity re-insurance is indeed applicable to the entire Single Market.

My argument is not that SURE or the re-insurance of unemployment benefit schemes can be the main component of the EU’s response to the Covid-19 crisis. A much broader and massive intervention is needed. But risk-sharing in the domain of unemployment is a step forward within a process of European solidarity in the current situation. The ambition to boost the ambition to contribute to a more inclusive and low-carbon economy.

The role of short-term work schemes

Short-term work schemes provide a subsidy for temporary reductions in the number of hours worked in firms affected by temporary shocks. This allows employers to avoid thereby temporary excessive reductions in production or to reduce their employees’ hours instead of laying them off. Future hiring costs are avoided, production capacities and human capital are preserved, and the loss of income for households is limited. Thus, the failure of the short-term work scheme, which typically lasts for a few weeks, is in general well-received. The shape of the shock caused by the public-health response to Covid-19 is a textbook case for the use of short-term work: in this context, short-term work can be more effective than other forms of insurance such as unemployment benefits which may be too generous.

In fact, rather than an ‘unemployment (re)insurance system’, the Commission’s proposal is, in its first-order effect, about all a ‘job (re)insurance scheme’.

In the context of this sharp contraction, the case for collective action at the EU level is also very strong. When economic impacts are large, it is of the utmost importance to avoid matches of human capital and supply chains on a large scale in some national economies: the external impact on other national economies can be huge. Such negative externalities play a particularly critical role when import trade and production links exist, as in the case in the Single Market.

The existence of effective ‘job (re)insurance schemes’ in the Member States allowed for demand and production to be maintained. On the other hand, the short-term work scheme is supposed to be a (temporary) insurance against employment losses. In the case of Covid-19, this is probably the case to a certain extent. The closings in the crisis have disrupted both consumption and production, and these shocks may be temporary. The intergovernmental system of national guarantees will be in place and SURE will not be an automatic instrument; once the need for these guarantees has diminished, the Member States must be fully responsible for their employment policies.

SURE’s architecture and the responsibility of Member States

The scale of the effort is a key issue for stabilisation. SURE promises a significant volume (€58 billion). There is one limit to SURE’s firepower: the shares of loans granted to the three Member States represent- ing the largest share cannot exceed 30% of their GDP. An analysis of spending on unemployment benefit programmes provides some indicators to assess this figure. Over the last ten years, spending on unemployment benefits reached a median level of 2.5% of GDP in 2013 for the entire EU-27. In 2017, it stood at 3.4% of GDP. If we consider Spain and Italy, another 10% of GDP is spent on unemployment benefits equal to 4.5% in 2018 and 0.7% in 2020.

The measures envisaged by SURE may be more costly than unemployment benefit schemes. The support for people on short-time work arrangements is often greater than conventional unemployment benefit schemes, and the measures’ scope of application may be broader, including groups which do not usually benefit from unemployment insurance and the same countries, such as the self-employed. On the other hand, the unemployment expenditure data cover an entire year.

Yet, these figures show that, although the amount promised is significant, should the lockdown continue for many months, additional funding would probably be necessary. Through its legal basis and funding method, SURE is a true EU instrument and an intergovernmental instrument, which is a major advantage. By not using the European Stability Mechanism (ESM) for this initiative, the Commission avoids interference with the debate on whether or not the ESM should be used for European solidarity in the corona crisis. SURE will be able to borrow directly from providers of capital; its underlying logic is therefore close to the functioning of the European Fiscal Stabilisation Mechanism (EFSM), but with almost double the firepower ($300 billion versus $60 billion).

The decision-making process for SURE’s adoption underlines the need for a fast-track procedure. The adoption of the regulation which creates SURE only requires majority voting by the States, subject to opt-outs. However, for the instruments to be effective, it would be useful to learn from national best practices in order to coordinate the response to Member States. In the longer term, any mutual assistance scheme needs both delineation and coordination, but the lack of such contours can be maximally efficient and politically sustainable.

Third, schemes that avoid lay-offs for a certain period can also be considered. The idea of providing emergency aid to support employment is a main feature of SURE. Inevitably, workers are already and will be laid off; hence, in all Member States, the lay-off schemes cannot be avoided. On the other hand, in the course of the process, it may be useful to change the nature of some unemployment expenditure schemes supported by SURE. Short-time work schemes will be one of them. SURE seems to be a good instrument to support the extent to which short-time work schemes supported by SURE are likely to be implemented. Discussing and imposing relatively detailed conditions will imply delays, which one cannot afford in an emergency context. The Commission rightly allows a broad range of measures, including the possibility to provide support by means of short-time work, which would be useful to learn from national best practices in order to coordinate the response to Member States.

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The first webinar of the Luxembourg Academy of Green, Social and Sustainability Bonds (LGX Academy) was held in April 2020 (picture). Deputy CEO Luc Henzig, only of Luxembourg’s financial centre but also of the EU, commented Luc Henzig, CEO of the Luxembourg Stock Exchange and Founder of LGX

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Sustainable finance education in high demand

Over the past months, the LGX Academy has worked with internationally recognized institutions such as the International Finance Corporation (IFC) of the World Bank Group, the Luxembourg and the University of Luxembourg to provide sustainable finance trainings on a national or international level, including previous trainings at the Luxembourg School of Finance for the Luxembourg Academy of Green, Social and Sustainability Bonds (LGX Academy).

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